



State of Washington  
Agency Activity Inventory System  
Agency Activity by Agency  
Approp Period 2001-03  
Activity Version: 2002 Spring Update Exercise

**Agency:** 195 - Liquor Control Board

**Category:** Revenue and Collections

**State Liquor Store Operations**

There are 157 state liquor stores throughout the state located near key shopping areas or major traffic flows. Stores are authorized by RCW 66.08.030 c.

The purpose of state liquor stores is twofold. First is controlled distribution to qualified customers, and second is to provide desired products sought by customers. Store personnel are trained to identify underage customers, as well as customers who may be intoxicated. Unqualified customers are denied the sale.

The store manager places orders weekly to replenish the inventory required in the store. This weekly process reduces the amount of product a store must warehouse, compared to a monthly order. Stores average 4,000 to 5,000 square feet in size and would be much larger if more inventory was warehoused.

Frequent ordering allows faster reaction to customer demands. For example, customers want different products during the holiday season than other times of the year. The store manager understands unique buying trends for the store and adjusts product availability accordingly.

Each store manager schedules part-time help to meet the fluctuating volumes of customers entering the store. Approximately 591 FTE's are represented by approximately 720 people physically on the payroll. Use of part-time help allows flexibility in meeting customer's needs while controlling salary expense.

**Expected Results**

- Generates annual gross sales of \$425 million, including tax revenues of \$110 million and net profits of \$42 million.
- Manage inventory valued at cost of \$22 million.
- Over 30 million bottles of liquor and wine are sold annually through our store network.
- From FY2000 to FY2001 store salaries as a percentage of sales decreased from 4.4% to 4.0%.

**Total \$** \$73,541,777

**GFS \$** \$0

**Other \$** \$73,541,777

**FTEs** 591.0

**Agency Priority:** None

**Category:** Revenue and Collections

**Contract Liquor Store Operations**

Mandated by RCW 66.08.026, this activity pays commissions and minor operating expenses to 155 contract liquor stores. These retail outlets are located in rural Washington communities whose populations are not large enough to support the operational expenses of a state-operated store. LCB, through recommendation by their Retail division, appoints local business owners to sell products under contractual and code regulations.

**Total \$** \$17,444,438

**GFS \$** \$0

**Other \$** \$17,444,438

**FTEs** 0.0

**Agency Priority:** None

**Expected Results**

- Serve community needs by providing 155 convenient locations statewide.
- Generates annual gross sales of \$67 million, including tax revenues of \$18 million and net profits of \$6.5 million
- Commissions are paid on sales, thus will vary as sales increase or decrease.



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**Technology Services**

This activity provides the computer services necessary to operate the 157 state liquor stores, 157 contract liquor stores, and all other organizations of the LCB. It supports mission-critical systems, i.e. point-of-sale (POS), merchandising, WMS, regulatory, financial, and human resource systems, as well as a customer hot-line and on-site technical support. It also supports all desktop/notebook personal computers and related software, voice, and data networks. This program conducts strategic business/technology planning and implementation, develops and implements IT policies, guidelines and practices, and provides consulting on technology and acquisitions. Technology training is provided to end-users who need it to accomplish their jobs. The warehouse management system at the distribution center is critically dependent on information technology for communications with licensees, suppliers, stakeholders and customers. In addition, the licensing and enforcement activities are reliant on information technology to carry out their duties.

**Total \$** \$13,256,086

**GFS \$** \$0

**Other \$** \$13,256,086

**FTEs** 38.7

**Agency Priority:** None

**Expected Results**

The division, in cooperation with a vendor, plans to install the \$4.8 million Merchandising Business system. This includes Point-of-Sale systems in 157 State Liquor Stores. It will provide tremendously upgraded management tools for finance, accounting and audit. Purchasing, as the initiator of our retail supply chain, will obtain greater effectiveness for forecasting and for maximizing cost effectiveness in their activities. This system is projected to provide a reliable, stable platform to report biennial revenues of \$1 Billion, along with the reporting capabilities necessary to safeguard assets and make operations more efficient. It is expected to allow the Retail Services function to provide additional services, such as, gift certificates.

Scanners will be installed at 157 state liquor stores to assist with the receiving of shipments from the distribution center.



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**Category:** Public Safety and Criminal Justice

**Enforcement of Liquor Control Laws**

The Enforcement and Education Division is charged with investigating and prosecuting all violations and penal laws relating to transportation, possession, distribution, and the sale of liquor (RCW 66.44.010).

The Division's primary responsibility is ensuring public safety by preventing overservice at 6,679 on-premise locations, reducing underage drinking at 11,221 liquor license locations, and reduce underage drinking at unlicensed events such as keggers, college parties, and community events where alcohol is available. In addition, liquor and tobacco agents perform liquor premise inspections, investigate complaints against liquor licensees, conduct random compliance checks (stings), and educate the public on the adverse effects of alcohol.

Other Funds: Liquor Revolving Account - State

**Expected Results**

- The Enforcement Division will provide saturation patrols for 10 community events. Community alcohol related problems have increased. The division will target: Mardi gras, College Senior Golf drinking tournaments, concerts, and other large events. Liquor and Tobacco Agents will be mobilized from adjoining areas to control the situation before it gets out of control.
  - Liquor and Tobacco Agents will conduct over 50,000 liquor premise inspections for FY 03. Premise inspections are preventive enforcement methods that provide licensees with compliance enabling techniques that increase compliance with state liquor laws.
  - Liquor and Tobacco Agents will conduct 80 serious injury/fatality/collision follow-up investigations at the request of state and local law enforcement agencies. The follow-up investigations aid in establishing the source of alcohol (on-premise liquor license location, overservice, minors). LCB specialized emphasis in these investigations help reduce state's liability from road and highway tort claims by placing responsibility and cause with an alcohol related violation to the appropriate parties. Two hundred and forty eight of the state's 631 traffic deaths in year 2000 were drinking driver involved.
  - Liquor and Tobacco Agents will conduct over 1,600 random liquor compliance checks in FY 03 to ensure that liquor licensees are not providing alcohol products to minors. Compliance checks help determine which licensees are in violation of state liquor and tobacco laws and have proved to be the most effective methods to increasing compliance by licensees on issues related to youth access to alcohol products.
  - Liquor and Tobacco Agents will provide training to approximately 15,000 licensees/employees on responsible liquor sales methods and the consequences of selling alcohol products to minors.
  - In FY 03, Liquor and Tobacco Agents will participate in over 30 party patrol or keg buster events. Party patrol and keg busters are partnerships with local law enforcement agencies targeted at preventing and intervening in underage drinking parties.
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**Total \$** \$10,645,159

**GFS \$** \$0

**Other \$** \$10,645,159

**FTEs** 82.0

**Agency Priority:** None



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**Financial Services**

The purpose of this activity is to provide financial services that support the internal operations of LCB and benefit other state agencies and local governments. Every service provided is either statutorily required or an otherwise critical business function. These financial services include: forecasting of revenues; collection, distribution, and reporting of spirit, beer and wine taxes, liquor profits, license fees, lottery ticket sales, and revenues from tobacco seizures; accounting (payroll, payables, receivables, inventory, financial reporting); and budgeting services. Additionally, the Audit and Loss Prevention Services section performs internal audits of LCB, state-owned and contractor-owned liquor stores, warehouse operations, and tax audits of liquor manufactures, importers and wholesalers.

This activity also includes the budget for all of the agency's overhead costs, such as headquarters building rent and utilities, records management, Department of Information Services charges, State Auditor Office charges, and vehicle replacement fund.

Other Funds: Liquor Revolving Account - State

**Expected Results**

**Total \$** \$10,325,984

**GFS \$** \$0

**Other \$** \$10,325,984

**FTEs** 63.9

**Agency Priority:** None

**Category:** Business, Employment and Consumer Services

**Liquor Warehouse Operations and Distribution**

In accordance with RCW 66.08.050 (3), the LCB operates a warehouse for the storage and shipment of liquor. The warehouse is located on an 11-acre parcel located at 4401 East Marginal Way South, in the city of Seattle, Washington. This warehouse receives products from suppliers and ships products to 157 state and 160 contract liquor stores throughout the state.

**Total \$** \$8,279,600

**GFS \$** \$0

**Other \$** \$8,279,600

**FTEs** 62.5

**Agency Priority:** None

**Expected Results**

- Receive, process and ship over 3,748,028 cases annually to the network of State-owned and Contract Liquor Stores.
- Daily shipments average 16,000 cases, with peak daily shipments reaching 30,000+ cases during the months of November and December.
- Maintain daily inventory levels of between 330,000 to 450,000 cases.
- Process 22,144 cases of special orders in 2001 at a cost of \$2,542,231. This is done as a service to our customers without additional cost.
- The material handling system (MHS) produces a higher degree of inventory tracking shipping accuracy and fill rates.
- Product availability results in higher customer satisfaction and the possible higher sales rate.
- MHS is ergonomically set up for employees that will reduce on the job injuries and time loss due to these injuries.



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**Financing of the Seattle Warehouse and Materials Handling System**

The Seattle warehouse is financed with an offering of \$27,175,000 from Certificates of Participation (COPs) instruments. The proceeds of COPs are used to demolish the former warehouse, construct a new warehouse building, and acquire a substantially improved materials handling system. The payment period is from 1997-2008, with several opportunities to make early payments.

At its April 24, 1996, Board meeting, the LCB adopted a dedicated price increase of 15 cents per 750 ml bottle of distilled spirits (the capital charge). Presently, the capital charge (net of applicable retail sales tax which is currently approximately 2.5 cents per 750 ml bottle) is dedicated to the payment of debt service on COPs.

Special redemption from available targeted revenues: Beginning on October 1999, if there is additional revenues available, the Liquor Control Board must redeem the \$4,855,000 worth of COPs maturing on October 1, 2010, in minimum denominations of \$5,000.

Optional redemptions: The COPs maturing on or after October 1, 2007, are subject to redemption at the option of the LCB on and after October 1, 2006.

**Expected Results**

**Total \$** \$7,611,000

**GFS \$** \$0

**Other \$** \$7,611,000

**FTEs** 0.0

**Agency Priority:** None

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**Category:** Business, Employment and Consumer Services

**Agency Management - Liquor Control Board**

The Liquor Control Board (LCB) establishes policies for the sale of alcoholic beverages and tobacco products throughout the state. Funded in this activity are costs for the overall management of 1,265 agency employees. These costs consists of oversight of administrative and policy duties, including adjudicative responsibilities for over 12,000 licensees, day-to-day operations, management of human resources, legislative programs, rules development, and public information activities. A portion of costs in this category represent the legal services provided by the Attorney General's Office and the Office of Administrative Hearings in performing adjudication hearings on the revocation or suspension of liquor lienceses, and administrative actions and subsequent appeals taken against liquor and tobacco licensees.

Other Funds: Liquor Revolving Account - State

**Expected Results**

**Total \$** \$5,923,420

**GFS \$** \$301,172

**Other \$** \$5,622,248

**FTEs** 25.0

**Agency Priority:** None



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**Liquor Licensing and Permits**

The Program Administration, License Investigation, License Processing, and the Customer Service Units provide:

- 1) Review, investigation, and reporting on all license applications, permit applications, and requests from current license holders to modify their business structure or operation (RCW 66.24) (RCW 66.20) (RCW 66.08.010).
- 2) Approval of all liquor license and permit applications and renewals, except those of a controversial nature involving extensive investigation and requiring a Board decision (RCW 66.24.010).
- 3) A process for accountability for all liquor license and permit fees (RCW 66.08.170).
- 4) Maintenance of official licensing records and ascertain documents are available for court, administrative action, and public records requests, Chapter 42.17 RCW (WAC 314-60).
- 5) A point of contact and general licensing information for license applicants and the general public, and an information desk to receive customers and assistance for other divisions of the Board.

Other Funds: Liquor Revolving Account - State

**Expected Results**

**Total \$** \$3,072,729

**GFS \$** \$0

**Other \$** \$3,072,729

**FTEs** 32.0

**Agency Priority:** None



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**Category:** Public Safety and Criminal Justice

**Tobacco Tax Enforcement**

Liquor and tobacco agents enforce cigarette (Chapter 82.24 RCW) and other tobacco products (Chapter 82.26 RCW) tax laws and applicable/appropriate federal statutes and regulations, to promote voluntary compliance and increase excise tax collection on cigarette and other tobacco products.

An estimated \$105 million in state revenue is lost each year due to tax evasion on cigarette and tobacco products. Initiative 773 increased cigarette tax from \$8.25 per carton to \$14.25 per carton. For comparison, Oregon tax per carton is \$6.80 and Idaho is \$2.80. This significantly increases the possibility for cigarette tax evasion in the state. Liquor and Tobacco Agents are a critical element in preventing these tax evasion tactics.

**Expected Results**

- Liquor and Tobacco Agents seek greater overall compliance with the provisions of Chapters 82.24 and 82.26 RCW that result in an increase of tax collections due the state.
- Liquor and Tobacco Agents will conduct interdictions of inbound shipments of contraband cigarettes resulting in the loss of property, money, and potential for incarceration.
- Liquor and Tobacco Agents will conduct inspections on 277 tobacco wholesalers and branches. Liquor and Tobacco Agents will ensure overall compliance with applicable statutes and maintain accuracy of licensee databases. Non-compliant locations will receive follow up inspections.
- Liquor and Tobacco Agents will conduct investigations on businesses not currently licensed to sell cigarettes. These establishments will be brought into compliance as a result of the investigation, resulting in revenue to the state. This is an on-going effort, as new businesses appear daily with little or no instruction on appropriate practices for cigarette retailers.
- Through routine inspections Liquor and Tobacco Agents will reduce the quantity of improperly labeled or unlabeled cigarettes not bearing the U.S. Surgeon General's warning.
- Liquor and Tobacco Agents will identify non-participating manufacturers who are not contributing to the MSA trust fund, thus providing Department of Revenue with additional data upon which to base revenue collections.
- Through multi-jurisdictional task forces, the amount of funding derived from cigarette trafficking available to organized criminal operations will be reduced. The LCB is an active partner in such investigations. As a result, the LCB participates in federal asset forfeiture sharing programs associated with such investigations. The Enforcement and Education Division has been involved in three sharing ventures since 1997 resulting in \$104,761 in dedicated revenues to the agency.

**Total \$** \$2,555,102

**GFS \$** \$2,555,102

**Other \$** \$0

**FTEs** 18.0

**Agency Priority:** None





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**Retail Liquor Sales Administration**

This activity includes the Retail Division's director and staff, Store Development & Maintenance section, and the Property Specialist. Work that is performed includes strategic planning, store remodels and maintenance, store site selection, and negotiation of leases for the Retail Operation.

The director and staff (4) in conjunction with 11 district managers, supervise 157 state liquor stores (SLS) and 155 contract liquor stores (CLS). The SLS are operated by 580 FTEs for which district managers recruit and train to keep the SLS operating effectively and efficiently.

The Store Development & Maintenance section strategically locates stores in revenue-producing areas. Leases on the 157 state stores are contracted for 5 to 10 years. About 15 to 20 leases expire annually, which require negotiation to either renew leases or obtain new sites if the current location is undesirable.

**Expected Results**

- Gross Sales increased \$24.8 million in the one year period June 30, 2000 to June 30, 2001.
- During this same period Direct Expense of SLS, as a percentage of Gross Sales decreased from 8.8% to 8.7%, effectively improving profitability by \$421,000.
- From 1996 to 2001 bottle counts, as measured by liters sold, increased by 15.6% with no increase in FTE budget.
- In FY1 of this biennium, 10 new CLS managers have been appointed.
- This biennium about 10 stores will be relocated.
- 22 leases expire before June 30, 2003.

**Total \$** \$2,434,175

**GFS \$** \$0

**Other \$** \$2,434,175

**FTEs** 11.0

**Agency Priority:** None





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**Liquor Purchasing and Merchandising**

**Total \$** \$1,265,226

The Purchasing Division's function, under statutory authority of RCW 66.08030, 050, 070, is to provide the citizen's of Washington with a wide selection of alcoholic beverages at reasonable prices. This Division recommends product listings to the Board and manages inventory in our Distribution Center. The Special Order Program allows customers to obtain products that are not in our general listings

**GFS \$** \$0

**Other \$** \$1,265,226

**FTEs** 12.5

**Agency Priority:** None

**Expected Results**

- Maintain a selection of over 1900 beverage alcohol items for all liquor stores, contract stores and licensees.
- Review and manage inventory forecasts and sales data to ensure a 95% in stock level.
- Evaluate proposed new products to ensure consumer trends are captured and customer expectations are met.
- Maintain trend of increasing sales and revenues to the state. Since 1996 gross sales of all products have increased 35% from \$376.4 million to \$508.9 million per year. Gross sales of distilled spirits have increased 33% from \$355,133,509 to \$471,048,196; in that same period, wines sales have increase 79% from \$20.5 million to \$36.7 million.
- As provided by statute, continue to offer licensees of the board discounts on their purchases of distilled spirits. These discounts totaled \$22.7 million in FY 2001.
- Continue to expand the number of products and suppliers participating in our bailment inventory management system which allows us to lower our cost of goods sold and delay payment on products until they are withdrawn from bailment inventory and shipped to our retail outlets. Approximately 87% of our case inventory is under the bailment system.
- Ensure that customer's needs are met through the special order program which offers an additional 2000 unlisted items to our customers. Special orders now total over 10,000 per year, increasing 300% since 1993.
- Increase return on purchasing investment by purchasing discounted stock during sale periods and selling at full margin, adding approximately \$2.5 million in additional revenues annually.
- Assign product displays according to highest profit margin to encourage consumer trade-up and to increase revenue.
- Process industrial alcohol orders for special permit holders such as hospitals, medical laboratories, and universities.



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**Regulation of Manufactureres, Importers and Wholesalers**

The Manufacturers, Importers and Wholesalers (MIW) section is responsible for ensuring the proper administration of all state liquor laws and administrative rules applicable to beer, wine, and spirit manufacturers, importers, distributors, and interstate common carriers (ICC's). MIW works closely with the agency's Administrative Services Program to ensure proper and timely payment of beer and wine taxes. Their responsibilities include:

- 1) Providing education, training, and other technical assistance to manufacturers (in-state and out-of-state), importers, distributors, and interstate common carriers.
- 2) Investigating complaints and violations involving non-retail licensees (RCW 66.44.010).
- 3) Maintaining and monitoring a price-posting program for the manufacturing (supplier) and distributor levels of the non-retail liquor industry (RCW 66.28.180).
- 4) Providing a product and label approval program for all beer and wine products planned for sale in Washington State (RCW 66.28.110) (RCW 66.28.120).
- 5) Providing liquor advertising approvals and denials in accordance with Chapter WAC 314-52 and RCW 66.28.010, and education and assistance for license holders and marketing representatives.
- 6) Maintaining a CHRI office for conducting checks of license applicants and to assist liquor and tobacco criminal investigations, in accordance with (RCW 66.24.010) (RCW 66.44.010).

**Expected Results**

**Total \$** \$1,130,193

**GFS \$** \$0

**Other \$** \$1,130,193

**FTEs** 10.0

**Agency Priority:** None

**Category:** Public Safety and Criminal Justice

**.Alcohol Server Training**

This activity is commonly referred to as MAST (Mandatory Alcohol Server Training); RCW 66.20.300-350 makes alcohol server training mandatory for establishments that sell liquor for on-site consumption.

**Total \$** \$99,544

**GFS \$** \$0

**Other \$** \$99,544

**FTEs** 1.0

**Agency Priority:** None

**Expected Results**



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**Tobacco Tax Seizure Fund**

The departments of Treasury and Justice operate an Asset Forfeiture Sharing rogram. Asset forfeiture is a valuable tool used to take profit out of criminal activities. The LCB is eligible to share in asset forfeitures as a result of tobacco tax enforcement activity.

**Total \$**           \$99,000

**GFS \$**           \$99,000

**Other \$**           \$0

**FTEs**           0.0

**Agency Priority:** None

**Expected Results**

In FY 03, The Enforcement and Education Division will purchase equipment to aid in the continued success of tobacco tax enforcement and meet today's growing need for officer safety equipment upgrades.

**Category:** Public Safety and Criminal Justice

**Youth Access to Tobacco**

The Enforcement and Education Division is charged with maintaining state compliance (RCW 70.155) with Federal Law (SYNAR Amendment) that mandates states to restrict the sale of tobacco products to persons under age 18. The division is responsible for conducting tobacco premise inspections, investigating complaints against tobacco licensees, and conducting random compliance checks on tobacco licensees. (This is not part of the LCB's appropriations. The dollars are reimbursed through an interagency agreement with the Department of Health.)

**Total \$**           \$0

**GFS \$**           \$0

**Other \$**           \$0

**FTEs**           4.0

**Agency Priority:** None

**Expected Results**

- Liquor and Tobacco Agents will conduct over 28,000 tobacco premise inspections in FY 03. Premise inspections are preventive enforcement methods that provide licensees with compliance enabling techniques that increase compliance with state liquor and tobacco laws.
- Liquor and Tobacco Agents will conduct over 1,500 random tobacco compliance checks in FY 03. Compliance checks help determine which licensees are in violation of state liquor and tobacco laws and have proved to be the most effective method to increase compliance by licensees on issues related to youth access to alcohol and tobacco products.
- In FY 03, Liquor and Tobacco Agents will provide training to approximately 5,500 tobacco licensees/employees. The specialized training is designed to educate store clerks on how to check identification and alert them of the consequences of selling tobacco to persons under age 18.
- The Liquor Control Board is responsible for regulating and enforcing tobacco sampling (70.155.050). From 1994 through 2000, the state averaged 122 sampling events annually. In 2001, the state experienced a five-fold increase in the number of tobacco sampling events. Tobacco is being sampled predominantly at large events where persons under 18 years of age are present. In FY 03, Liquor and Tobacco Agents will conduct several unannounced random inspections at these sampling events to prevent tobacco access to persons under 18 years of age.

**Sub-Total for Agency 195 - Liquor Control Board**

**Totals**           \$157,683,433

**GFS**           \$2,955,274

**Other**           \$154,728,159



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|------|--------------|
| FTEs | <u>952.0</u> |
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